

May 2002

USF in Fairbanks

ACS



Alaska Communications Systems

FCC Reform of USF Is Needed

- **Avoid competition for subsidies, not customers**
 - CLECs designated Eligible Telecommunications Carriers (“ETCs”) receive USF \$ based on ILEC costs, not their own
 - CLECs arbitrage UNE/aggregated USF, pocket the difference
- **Avoid impairment of infrastructure investment**
 - CLECs serving through UNEs do not maintain local loop, do not make investments in new telecom facilities, do not have to account to FCC for use of proceeds
 - ILECs receive UNE prices, not USF \$, lose ability and incentive to invest in current or advanced facilities
- **Avoid waste of limited universal service resources**
 - High cost loop support should not flow to LECs that do not have high cost loops

Fairbanks Costs

Non-compensatory UNE Rate Destroys
ILEC Incentive to Invest in Plant

- | | |
|--|------------|
| ■ Embedded Cost per Loop
(used by USAC to compute
Universal Service support) | ■ \$ 33.24 |
| ■ Forward-Looking Cost per
Loop (approved by the RCA) | ■ \$ 19.19 |
| ■ Forward-Looking Economic
Cost According to ACS | ■ \$ 36.01 |

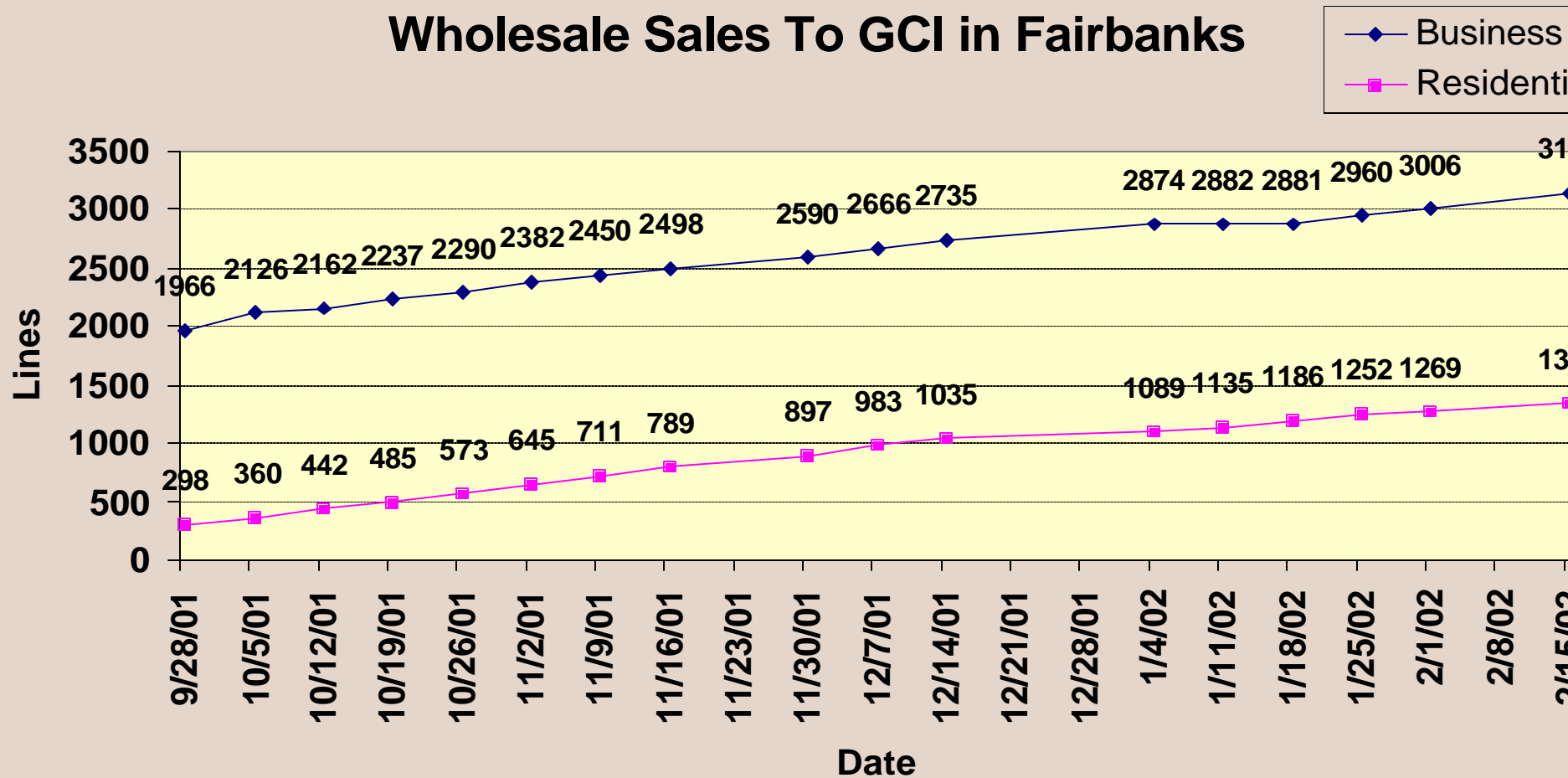
Fairbanks Arbitrage Opportunity

USF Support Exacerbates Regulatory Arbitrage In Rural Markets

<u>REVENUE SOURCE</u>	<u>RETAIL</u>	<u>UNE</u>
Basic Local Service	\$21.00	0
Custom Calling Features	\$ 6.00	0
UNE Revenue	0	\$19.19
Interstate Access	\$12.00	0
<u>Intrastate Access</u>	<u>\$ 9.00</u>	<u>0</u>
TOTAL	\$ 48.00	\$19.19
USF Impact	\$ 9.00	-\$ 9.00_
NET	\$57.00	\$10.19

CLEC Strategy in Fairbanks

Wholesale Sales To GCI in Fairbanks

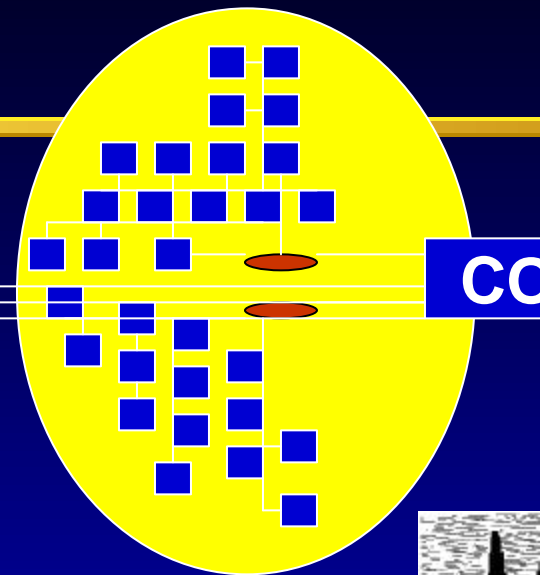
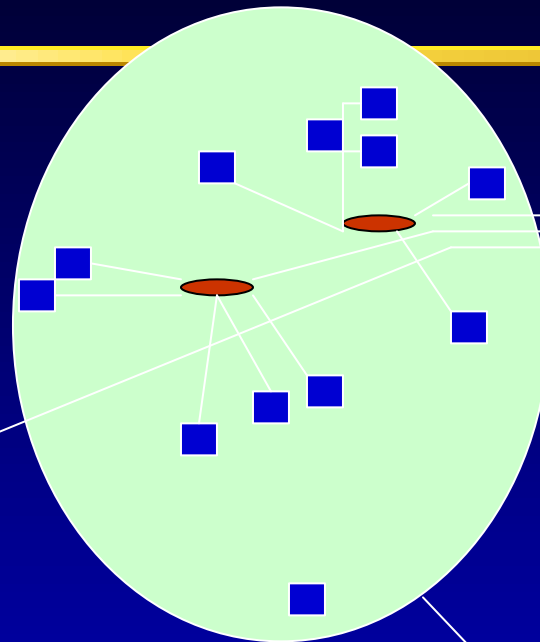
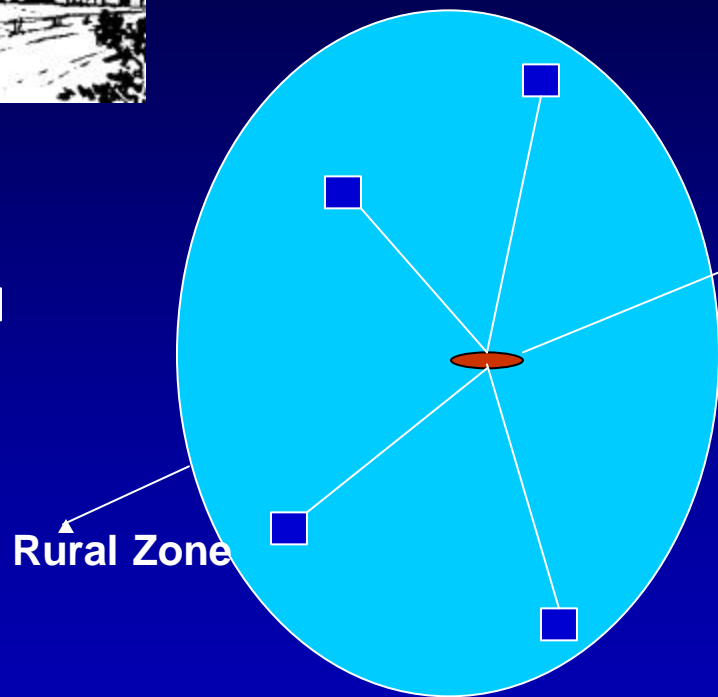


USF Support for Fairbanks & Juneau

- RCA grant of Eligible Telecommunications Carrier (“ETC”) status to GCI on 08/28/01 will divert USF from intended purpose
 - USF intended to support construction & maintenance of network
 - ACS retains responsibility to maintain loops leased by GCI
 - GCI makes no investment in the local network, is not accountable
- GCI will take advantage of arbitrage and compete for subsidies
 - As an ETC, GCI receives USF \$ based on ACS’ costs, not their own
 - ACS’ Fairbanks loop cost is \$33.24
 - USF for Fairbanks is approximately \$9.00 per month per loop
 - GCI’s cost to lease the loop is \$19.19
 - *No ILEC is eligible to receive USF funds unless their loop rate exceeds \$23.00*

After USF, GCI’s net loop cost becomes \$10.00 per month

Need for Deaveraging and Disaggregation in Fairbanks



Disparate Costs: Range from \$7/mo. To \$177/mo.
Averaged Rates - Averaged UNE - Averaged USF

Recommended FCC Reform of USF

- The FCC should base USF flowing to CLECs on the CLECs costs - capped at the rate paid to the ILEC
- Ensure UNE ratemaking is compensatory
- Allow self-certified disaggregation for up to four zones for USF funding purposes
- Adopt a national rule on Burden-of-Proof in rural exemption codes